

**THE LEONARD LETTER**  
*A weekly electronic newsletter*  
*from*  
*Bill Leonard, Member*  
*State Board of Equalization*

*December 1, 2003*

"It is always from a minority acting in ways different from what the majority would prescribe that the majority in the end learns to do better."

-- Fredrich August von Hayek  
(1899-1992), Nobel Laureate of Economic Sciences 1974

**UNDER THE DOME**

**\*\*\*Legislature: Strike One\*\*\***

The Governor's key aides have made their first appearances before the Legislature. The Legislature's hostility to the Governor's programs and, in some cases, the incivility has been a real wake up call to the Governor's team. I think the legislators may have done Schwarzenegger a favor. I believe he will be more committed than ever to bypassing the Legislature and going directly to the people with his agenda of reforms, as he has indicated he will do on his budget borrowing proposal and spending caps.

**\*\*\*Kudos to Shelley\*\*\***

I commend Secretary of State Kevin Shelley for his gutsy and correct decision to require that California's electronic voting machines produce a paper printout that will allow voters to confirm that their vote has been recorded correctly.

Some county election officials have complained about his decision, particularly about the costs it will add to the system. One registrar said that the added costs eliminated the incentive to go to an electronic system. However, saving money was not the goal of changing voting systems. The goal was to create a system that produced accurate outcomes and that people would trust. In order for that to happen, there must be a backup to ease people's minds about electronic tampering. Having printouts will help ensure the integrity of our electoral system.

### **\*\*\*Asset Sales Yield Immediate Relief, Long-term Savings\*\*\***

I thank Leonard Letter readers for the responses to my five suggestions for Governor Schwarzenegger. In particular, I am grateful to George Passantino from the Reason Public Policy Institute for offering additional benefits that would come from selling some of the state's surplus physical assets. He points out that the private purchase of these properties would add to our property and sales tax base as current tax-exempt properties are put to use in the economy. Also, divesting of assets that require money for upkeep would result in lower maintenance and operations costs for the state.

According to Reason, California state government owns more than 194 million square feet of structural space in more than 22,000 buildings. This is four times greater than the sum of all commercial office space in Central Los Angeles and nearly half of the entire office space market in Manhattan. Much of this property has already been identified as surplus by the state itself. The Bureau of State Audits reports that in the 15 highest-cost counties alone, there are at least 2,700 acres of surplus property owned by the state. On top of this, the Bureau identified 123 unused or underutilized properties that state agencies failed to detect in their surplus property assessments.

I agree with Reason that California's asset management laws need reform, and Senate Bill 669 (Battin) is a great vehicle for that reform. The majority party is currently sitting on the bill in Senate Appropriations Committee.

### **\*\*\*Counterfeit Conundrum\*\*\***

A few weeks ago I wrote here about the role cigarettes play in the underground economy. The Los Angeles Times recently expounded on this theme, noting that counterfeit cigarettes are becoming a bigger and bigger problem. Traditional tax-avoidance in cigarettes involves placing fake tax stamps on legitimate cigarettes; counterfeiting involves smuggling cigarettes into the country and selling them as name-brand products with fake tax stamps. This new twist has brought together government and the tobacco manufacturers in a way they had not been partnering before.

As counterfeit products have begun to hurt the tobacco companies' reputations and bottom line, they have become more interested in stopping the illicit trade. That has meant extra help for government agencies charged with such enforcement but without the resources to do so adequately. The big four tobacco companies have hired people from the law enforcement and intelligence fields, and they are working with U.S. officials and in countries known for producing counterfeits.

Private efforts like these may be instrumental in recovering some of the \$30 billion in taxes that is estimated to be lost annually because of counterfeiting. Yet, the counterfeiters and smugglers will continue to risk being caught because the reward is worth the risk. Consider the scenario the Times article shared: "A 40-foot container can hold about 8.5 million cigarettes, or 425,000 packs. A British American official said that quantity could be imported from China for about \$120,000, which would cover the cost of the cigarettes, any necessary bribes in China and the shipping charge. Assuming a street price of \$3 to \$6 a pack, depending on where it's sold, one load generates roughly \$1.25 million to \$2.5 million in sales for a profit of about \$1 million to \$2 million." Numbers like that are possible because our tobacco taxes are so high that people are not just willing, but eager, to break the law for profit.

## **ISSUE FOCUS**

### **\*\*\*DMV on VLF\*\*\***

For those of you wondering about the increased car registration you already paid or have a bill for, here is the latest from the DMV in light of Executive Order S-1-03 rescinding the Vehicle License Fee (VLF) increase that went into effect October 1, 2003.

Customers who have paid the full amount will automatically receive a refund by mail beginning in early 2004.

Customers who have not already paid their registration renewal and received a bill prior to the reduction may calculate their lower fees by taking the VLF line from the billing notice, multiply it by .675, and subtract that amount from the total fees due. Round this figure to the nearest whole dollar. You may also use DMV's Online Calculator.

Most customers renewing their registration for November, December, and January should have received a bill prior to the reduction and should calculate a lower VLF amount.

Customers renewing their registration for February should have the reduced fees clearly indicated in their renewal notice and should not calculate a new amount.

If you have any questions about whether or not you should calculate a reduced VLF amount for a registration payment, please contact your local DMV. (Locate your local DMV)

Submit the new amount by mail to the address on your billing notice.

At this time, the reduced registration amount can only be accepted by mail. Please remember to pay your registration on time to avoid penalties.

## **MISCELLANY**

### **\*\*\*Three More Words to Know\*\*\***

Each week, the Leonard Letter features a few of the words from a list of 100 words that some educators say every high school student should know. The full list may be viewed at [http://www.houghtonmifflinbooks.com/booksellers/press\\_release/100words/](http://www.houghtonmifflinbooks.com/booksellers/press_release/100words/).

76. Recapitulate (v) --- To repeat in concise form: Governor Schwarzenegger will have to recapitulate his reform message to Democrat legislators many times.

77. Reciprocal (adj) --- Concerning each of two or more persons or things; interchanged, given, or owed to each other; performed, experienced, or felt by both sides; interchangeable; complementary: One of the reasons for Gray Davis's failure as Governor was the lack of reciprocal respect he showed to the legislature early on in his tenure when he announced that the legislature's purpose was to implement his will.

78. Reparation (n) --- The act or process of repairing or the condition of being repaired; the act or process of making amends, expiation; something done or paid to compensate or make amends: Governor Schwarzenegger was elected on a platform of making reparations for the recently imposed tripling of the car tax.

## **BOE AND LEGISLATIVE DATES**

December 4 --- BOE meets in Sacramento.

December 5 --- Last day to place items by legislation on the March 2004 ballot and last day to file for U.S. Senate, Congress, and Legislative offices.

January 5, 2004 --- Legislature reconvenes in Regular Session.

January 10, 2004 --- Governor must submit budget to Legislature.

January 19, 2004 --- Rev. Martin Luther King holiday.

January 27, 2004 --- BOE meets in Sacramento.

January 31, 2004 --- Last day for bills introduced in 2003 to pass.

February 20, 2004 --- Last day to introduce bills this session.

### **NOTABLE DATES/ HISTORY**

December 1, 1824 --- House of Representatives begins to end election deadlock between John Quincy Adams, Andrew Jackson, William Harris Crawford & Henry Clay--- Adams is eventually declared president

December 1, 1878 --- First White House telephone installed

December 2, 1823 --- President James Monroe declares his "Monroe Doctrine"

December 2, 1968 --- President Nixon names Henry Kissinger security advisor

December 3, 1847 --- Frederick Douglass publishes first issue of his newspaper "North Star"

December 3, 1868 --- Trial of Jefferson Davis starts; first blacks on U.S. trial jury

December 3, 1948 --- First U.S. woman army officer not in medical corps sworn-in

December 3, 1953 --- Eisenhower criticizes McCarthy for saying communists are in Republican party

December 4, 1619 --- America's first Thanksgiving Day

December 4, 1942 --- FDR orders dismantling of Works Progress Administration

December 4, 1945 --- Senate approves U.S. participation in U.N.

December 5, 1933 --- 21st Amendment ratified, only amendment adopted to repeal an earlier amendment [18th Amendment (Prohibition)]

December 6, 1849 --- Harriet Tubman escapes from slavery in Maryland

December 7, 1917 --- U.S. becomes 13th country to declare war on Austria during World War I

## **GENERAL TAX INFORMATION**

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115

TDD service for the hearing impaired

TDD phones: 800-735-2929

Voice phones: 800-735-2922

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